

The purpose of this report is to provide U.S. franchisors with an overview of the general commercial and economic situation in the Dominican Republic and highlight areas of opportunities for U.S. franchises.

General Overview:

The Dominican economic situation deteriorated in 2003 when GDP growth was -0.4%, inflation reached 43% and the exchange rate reached an all-time high of RD\$50 to US\$1. However, a new administration was sworn into office in August 2004. There is a commitment by the Fernandez administration to re-establish growth and competitiveness. There are already visible signs of growth, including an expansion among the country's banks. In fact, GDP grew by two percent in 2004 and the Dominican peso has appreciated to approximately RD\$28 to US\$1.



This recuperation has been the result of a tight monetary policy and the strengthening of fiscal measures by the Government of the Dominican Republic. These factors were critical to regain the confidence of the economic agents; there has been notable recovery in the exchange rate stability and inflation control.

These positive factors generate a more favorable climate for business and investment in the Dominican Republic. Businesspeople contacted at this time last year were not interested in looking at new business proposals and declined invitations to participate in delegations to attend trade shows in the U.S. Commercial Service Santo Domingo has noticed a remarkable change in the interest from the business community in our trade show delegations in 2005, which shows enthusiasm and interest in looking for new business opportunities.

Market Overview



Franchising in the Dominican Republic started in the early 1970's with KFC and Howard Johnson's Ice Cream. Soon, both franchises were out of business in the DR because the market was not ready yet to accept these concepts.

The franchise phenomenon actually flourished in the late 1980's until the mid 1990's when the majority of investment in franchises took place mainly in the fast food sector. From 1995 until recently smaller (lower impact) franchises have been established in the country. After the period of economic crisis over the past two years, investors now perceive the

possibility of an increase in demand and are starting to explore new business opportunities – including franchises.

U.S. franchises have a dominant position in the Dominican market - over 90% of the foreign franchises that operate in the Dominican Republic are from the U.S., the remaining 7-8% is mostly from Europe. The latter highly concentrated in the sub-sector of apparel and cosmetics.

There are a variety of franchises already present in the Dominican market that include the following sub-sectors:

- **Food:** KFC, Taco Bell, Burger King, McDonald's, Domino's Pizza, TGI Friday's, Pizza Hut, The Pasta House, Outback, Tony Roma's, Baskin Robbins, to name a few.
- **Furniture:** Baker, Ethan Allen, Sealy Mattress, Serta, Simmons, Thomasville.
- **Physical Fitness:** Gold's Gym.
- **Real Estate:** Century 21, Coldwell Banker, Re/Max.
- **Auto Service:** Meineke Discount Muffler, Ziebart.
- **Apparel:** Benetton, Liz Claiborne, Nautica.
- **Other Services:** Dry Clean USA, Heel Quick, Mr. Rooter, Sign-A-Rama, Sir Speedy, among others.

Market Trends & Opportunities

The high impact (large investment) franchises are in the fast food sector accounting for 80% of the market share. Low and medium impact franchises account for 20% of the market. A few years ago the best prospects concentrated in franchises that offered child & health services, consulting and technology services. Currently the best prospects have expanded to include a broader variety of services relevant to the Dominican market today, such as auto service, mail/package service, office/institutional cleaning services, personnel services, and child tutoring services (for the growing number of children attending bi-lingual schools, who require tutoring in English). There is also new interest in identifying retail franchises for niche products.



Dominicans feel more comfortable doing business with a franchiser today than years ago. The success stories of reputable franchise companies already in operation in the country add to the confidence of entrepreneurs. Dominican companies interested in obtaining a franchise understand the benefits of working with a tested and proven product/operation.

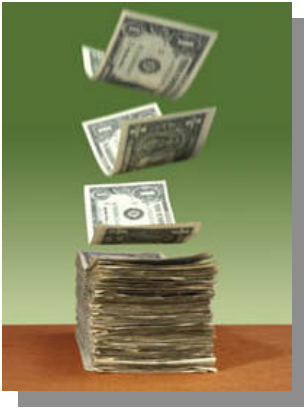
Local Franchises

The local franchise industry in the Dominican Republic is comprised of only a few well-established franchises mainly in the food sub-sector. As was the case with international franchises, initial franchising efforts by the local industry failed. In the early 1980's two local companies that had been successful with several fast food and ice cream stores, started to issue franchises but soon they learned that neither the market nor domestic franchisees were ready for this business practice. Now the franchise system is working for local firms and several others are interested in becoming a franchise.



Markets Within the Country

All the established franchises in the Dominican Republic start in the capital city of Santo Domingo, then generally follow to the other major markets for franchises and businesses: Santiago, Puerto Plata and La Romana.



Legal Framework

There are no specific laws dealing with franchises in the Dominican Republic. The Dominican legal framework for franchising is very flexible and grants space for freedom of agreement to create the rules for a franchiser/franchisee relationship.

Here are some useful and important legal facts:

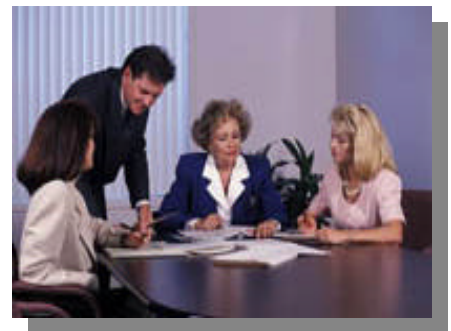
- There is easy access to foreign exchange.
- Remittance of dividends and royalties is allowed.
- Taxation: Tax Code provisions are applicable to franchises established in the Dominican Republic since this code covers income generated from activities in Dominican territory. Corporations pay 25% on their net income. There is also a tax of 25% on gross income remitted abroad, thus affecting royalties remitted by franchisees.
- Local franchisees that register their franchise contracts at the Central Bank of the Dominican Republic receive protection under Law 173. Law 173 is the agent/distributor protection statute of the Dominican Republic that passed in April, 1966. Note: If CAFTA-DR, the Free Trade Agreement between the US and Central America and the Dominican Republic is ratified by the U.S. and D.R. Congresses, Law 173 will only be applicable if both parties (franchiser and franchisee) agree to it in the contract.
- Foreign Investment Law 16-95; Article 2, specifies that franchises (trademark or technology) may be included as partial substitute for capital investment of a Dominican company.
- Since there is no specific franchise regulation in the DR, such as in the United States, that requires the presentation of audited financial statements and specific contract formats, legal costs to initiate a franchise in the DR are lower than in the U.S.

Trade Events

The Dominican Franchise Association is organizing a seminar on franchising in the DR, tentatively scheduled for October, 2005. The association is also planning to stage a franchise trade fair early next year (tentatively March 2006). For more information you may contact:

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